

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Community Mental Health for Central Michigan	County Isabella County
Audit Date 9/30/06	Opinion Date 1/11/06	Date Accountant Report Submitted to State: 2/22/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable boxes for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL: 129/91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal financial assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Certified Public Accountant (Firm Name) Yeo & Yeo, P.C. CPAs			
Street Address 3023 Davenport	City Saginaw	State MI	ZIP 48602
Accountant Signature 			

**Community Mental Health
for Central Michigan**

Mt. Pleasant, Michigan

**Annual Financial Statements,
Auditors' Report
and
Single Audit**

September 30, 2005

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Independent Auditors' Report

Community Mental Health for Central Michigan
Mt. Pleasant, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Community Mental Health for Central Michigan as of and for the year ended September 30, 2005, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Community Mental Health for Central Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Community Mental Health for Central Michigan as of September 30, 2005 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2006, on our consideration of Community Mental Health for Central Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Community Mental Health for Central Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financials statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

Saginaw, Michigan
January 11, 2006

Management Discussion and Analysis
Fiscal Year Ended September 30, 2005

The management of Community Mental Health for Central Michigan (CMHCM) presents the following overview and analysis of financial activities during the past fiscal year. CMHCM was created as a Mental Health Authority on October 1, 2001 by the joint action of Boards of Commissioners for the Michigan counties of Clare, Gladwin, Isabella, Mecosta, Midland, and Osceola. CMHCM is the successor organization to two separate mental health authorities, Midland-Gladwin Community Mental Health Services and Central Michigan Community Mental Health Services.

Overview of the Financial Statements

Two types of financial statements are provided: Government-wide Statements and Fund Statements.

The government-wide financial statements are designed to provide readers with a broad overview of the organization's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information of all of CMHCM's assets and liabilities with the difference between assets and liabilities being reported as net assets. Changes in net assets serves as a useful indicator in determining whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how net assets changed during the fiscal year. Reporting of activities is on an accrual basis meaning that the change in net assets is reported as soon as the underlying event giving rise to the change occurs regardless of the timing of the related movement of cash.

The fund financial statements report groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. CMHCM, as a governmental authority, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds are divided into two categories: governmental funds and proprietary funds.

Governmental funds has a narrower focus than that of the government-wide financial statement in that its focus is on the short-term movement of spendable resources and on the balances of spendable resources available at the end of the fiscal year.

Proprietary funds are internal service funds which are held as a self-insurance against future risk. These funds consist of state of Michigan Medicaid and General Funds and accumulated interest that must be held for future risk or used to provide authorized services to eligible persons.

Comparison with Prior Year

ASSETS	2005	2004	Increase (Decrease)
Current			
Cash and Cash Equivalents	\$10,298,654	\$10,173,095	\$ 125,559
Receivables	2,553,530	1,136,664	1,416,866
Prepaid items	1,219,907	979,167	240,740
Compensated Absences	<u>907,930</u>	<u>861,779</u>	<u>46,151</u>
	14,980,021	13,150,705	1,829,316
Capital Assets	1,079,454	1,285,848	(206,394)
Internal Service Funds	<u>835,485</u>	<u>2,150,881</u>	<u>(1,315,396)</u>
TOTAL ASSETS	<u>\$16,894,960</u>	<u>\$16,587,434</u>	<u>\$ 307,526</u>
LIABILITIES			
Payables and Accrued Payroll	\$ 5,377,482	\$ 4,611,110	\$ 766,372
Compensated Absences	<u>907,930</u>	<u>861,779</u>	<u>46,151</u>
TOTAL LIABILITIES	<u>\$ 6,285,412</u>	<u>\$ 5,472,889</u>	<u>\$ 812,523</u>
FUND BALANCES			
Capital Assets	1,079,454	1,285,848	(206,394)
Internal Service Funds	835,485	2,392,495	(1,557,010)
Unrestricted	<u>8,694,609</u>	<u>7,436,202</u>	<u>1,258,407</u>
	<u>\$10,609,548</u>	<u>\$11,114,545</u>	<u>\$ (504,997)</u>

The above table regroups and summarizes Assets, Liabilities, and Fund Balances for the agency as a whole including internal service funds. Please note the following:

1. The decrease in the value of capital assets is a result of two factors: (a) a general decrease in the cost of computers and (2) management's policy to extend the perceived useful life of motor vehicles to 150,000 miles prior to replacement.

2. Prior to fiscal 2005, CMHCM had a policy of maintaining and increasing internal service funds as a part of its overall risk management strategy. This was done with the contractual consent and encouragement of the Department of Community Health. During fiscal 2005 management became aware of a shift in departmental attitude toward Internal Service Funds from viewing them as prudent risk management tools to looking upon them as evidence of over funding. This led to management's decision to phase out internal service fund arrangements and maintain any fund balances in-house.
3. Liabilities are short term (generally less than 90 days). CMHCM has long maintained a practice of not borrowing money.

Revenues 2005	\$ 62,591,547
Revenues 2004	<u>61,415,275</u>
Increase	1,176,272
Per Cent Increase	1.92%

Expenses 2005	\$ 62,901,431
Expenses 2004	<u>62,117,512</u>
Increase	783,919
Per Cent Increase	1.26%

As indicated by the above table, there was not much change in revenues and expenses from the previous fiscal year. In 2005, revenues increased at a rate of slightly less than 2%. Significant cost controls implemented by management kept the rate of increase in expense on a par with the revenue increase. These controls included:

1. Consolidation of services which resulted in the closing of two group residential homes.
2. Executive leadership review of all staff positions which become vacant to consider restructuring, consolidation, or elimination. This resulted in the elimination of 5 full time equivalents between September 2004 and September 2005.
3. Reduction of almost 500 days of inpatient hospitalization from the previous year.

Budgets

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL
Total Revenues	\$ 64,389,393	\$ 64,154,776	\$ 62,591,547
Total Expenses	<u>66,575,008</u>	<u>66,608,341</u>	<u>62,901,431</u>
Increase (Decrease) in Fund Balance	<u>\$ (2,185,615)</u>	<u>\$ (2,453,565)</u>	<u>\$ (309,884)</u>

The original operations budget for fiscal 2005 predicted a deficiency of revenues over expenditures of \$2,185,615. The actual budget deficit was only 14% of the predicted deficit. The reason for this large discrepancy is almost exclusively the success of management in controlling costs.

Strength of Financial Position

The chart below shows changes in the agency's financial position for the past two years. Please note the following:

The number at the bottom of the table labeled "days of operations" represents the number of days the agency could operate at its current level while it received no outside revenue. CMHCM maintains a policy that this number should always exceed 30 days of zero revenue operations.

Risk Reserves	Balance at 9/30/2004	Increase (Decrease)	Balance at 9/30/2005
Internal Service Funds			
Medicaid	\$ 1,877,198	\$ (1,103,755)	\$ 773,443
Substance Abuse	60,994	1,048	62,042
General Fund	454,303	(454,303)	0
Retiree Medical Insurance	0	0	0
Total Internal Service Funds	<u>\$ 2,392,495</u>	<u>\$ (1,557,010)</u>	<u>\$ 835,485</u>
Special Revenue Funds			
Fund Balance			
Restricted	\$ 1,840,946	\$ 286,891	\$ 2,127,837
Unrestricted	6,457,035	1,017,669	7,474,704
Total Fund Balance	<u>\$ 8,297,981</u>	<u>\$ 1,304,560</u>	<u>\$ 9,602,541</u>
Funds Available for Risk Management			
Internal Service Funds	\$ 2,392,495	\$ (1,557,010)	\$ 835,485
Unrestricted Fund Balance	6,457,035	1,017,667	7,474,702
	<u>\$ 8,849,530</u>	<u>\$ (539,343)</u>	<u>\$ 8,310,187</u>
Total Expenses	<u>\$ 62,117,512</u>	<u>\$ 783,919</u>	<u>\$ 62,901,431</u>
Days of Operation	<u>52</u>	<u>(4)</u>	<u>48</u>

About the Future

Medicaid funding for fiscal 2006 was modified by the Department of Community Mental Health as required by federal regulations. New funding was based on data from fiscal 2004. As a result of this modification CMHCM received a smaller than average increase to Medicaid funding. This is expected to be partially offset by an increase in state general funds. However, for fiscal 2006 CMHCM is projecting a deficit of \$1,467,635, an approximately 2% deficit. Management regards this level of deficit as sustainable for a period of two years before vigorous measures need be taken. It is expected that cost controls currently being phased in will bring expenses and revenues into balance before the two year period has elapsed.

Community Mental Health for Central Michigan
Statement of Net Assets
September 30, 2005 and 2004

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 10,298,654	\$ 10,173,095
Accounts receivable, net	1,095,167	827,662
Interest receivable	123,540	104,802
Due from other governmental units	306,633	204,200
Prepaid items	1,219,907	979,167
Total current assets	<u>13,043,901</u>	<u>12,288,926</u>
Noncurrent assets		
Cash and cash equivalents - restricted	2,771,607	2,998,116
Interest receivable - restricted	-	14,544
Capital assets - depreciable, net	849,454	1,055,848
Capital assets - land	230,000	230,000
Total noncurrent assets	<u>3,851,061</u>	<u>4,298,508</u>
Total assets	<u>16,894,962</u>	<u>16,587,434</u>
Liabilities		
Current liabilities		
Accounts payable	3,905,948	3,715,967
Accrued wages and other payroll liabilities	762,390	682,277
Due to other governmental units	709,144	212,866
Total current liabilities	<u>5,377,482</u>	<u>4,611,110</u>
Noncurrent liabilities		
Compensated absences	907,930	861,779
Total liabilities	<u>6,285,412</u>	<u>5,472,889</u>
Net Assets		
Invested in capital assets, net of related debt	1,079,454	1,285,848
Reserved for risk management	835,485	2,392,495
Unreserved	8,694,611	7,436,202
Total net assets	<u>\$ 10,609,550</u>	<u>\$ 11,114,545</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Statement of Activities
Years Ended September 30, 2005 and 2004

Functions	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>2005</u>	<u>2004</u>
Governmental activities					
Health & Welfare - Mental Health	<u>\$ 63,153,976</u>	<u>\$ 50,176,061</u>	<u>\$ 12,109,478</u>	\$ (868,437)	\$ (3,222,850)
General revenues					
Unrestricted investment earnings				306,008	217,743
Restricted investment earnings				<u>57,434</u>	<u>51,325</u>
Total general revenues and contributions				<u>363,442</u>	<u>269,068</u>
Change in net assets				(504,995)	(2,953,782)
Net assets - beginning of year				<u>11,114,545</u>	<u>14,068,327</u>
Net assets - end of year				<u>\$ 10,609,550</u>	<u>\$ 11,114,545</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Governmental Funds
Balance Sheet
September 30, 2005 and 2004

	<u>General Fund</u>	
	<u>2005</u>	<u>2004</u>
Assets		
Cash and cash equivalents	\$ 10,298,654	\$ 10,173,095
Accounts receivable, net	1,095,167	827,662
Interest receivable	123,540	104,802
Due from other funds	1,028,192	-
Due from other governmental units	306,633	204,200
Prepaid items	1,219,907	979,167
Cash and investments - restricted	<u>907,930</u>	<u>861,779</u>
 Total assets	 <u>\$ 14,980,023</u>	 <u>\$ 13,150,705</u>
Liabilities		
Accounts payable	\$ 3,905,948	\$ 3,715,967
Accrued wages and other payroll liabilities	762,390	682,277
Due to other funds	-	241,614
Due to other governmental units	<u>709,144</u>	<u>212,866</u>
 Total liabilities	 <u>5,377,482</u>	 <u>4,852,724</u>
Fund balances		
Reserved for prepaid items	1,219,907	979,167
Reserved for compensated absences	907,930	861,779
Unreserved	<u>7,474,704</u>	<u>6,457,035</u>
 Total fund balances	 <u>9,602,541</u>	 <u>8,297,981</u>
 Total liabilities and fund balances	 <u>\$ 14,980,023</u>	 <u>\$ 13,150,705</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2005

Total fund balance - governmental funds	\$ 9,602,541
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Add: capital assets	3,212,224
Deduct: accumulated depreciation	(2,132,770)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets:	
Add: net assets of governmental activities accounted for in the internal service fund	835,485
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Deduct: compensated absences	<u>(907,930)</u>
Net assets of governmental activities	<u>\$ 10,609,550</u>

Community Mental Health for Central Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Revenues		
State grants		
Department of Community Health contract	\$ 9,272,676	\$ 9,155,896
Substance abuse	667,329	607,392
Title XX	19,342	19,342
Other state revenues	<u>39,332</u>	<u>41,714</u>
Total state grants	<u>9,998,679</u>	<u>9,824,344</u>
Federal grants	<u>842,589</u>	<u>857,957</u>
Contributions - local units		
County appropriations	<u>1,125,401</u>	<u>1,175,239</u>
Charges for services		
Medicaid - DCH contract	47,437,094	45,850,744
Medicaid - other	260,265	486,935
Northern Espresso program	83,735	83,631
Client and third party pay	1,060,490	805,504
Inter-county services	559,233	630,058
Other earned contract revenue	<u>775,244</u>	<u>937,559</u>
Total charges for services	<u>50,176,061</u>	<u>48,794,431</u>
Interest and rents		
Interest	<u>306,008</u>	<u>217,743</u>
Other revenue	<u>142,809</u>	<u>545,561</u>
Total revenues	<u>62,591,547</u>	<u>61,415,275</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Expenditures		
Health & Welfare - Mental Health		
Current		
Personnel costs	\$ 19,338,926	\$ 18,878,500
Operating expenditures	43,408,003	43,017,026
Capital outlay	<u>154,502</u>	<u>221,986</u>
Total expenditures	<u>62,901,431</u>	<u>62,117,512</u>
Revenues over (under) expenditures	(309,884)	(702,237)
Other financing sources (uses)		
Operating transfer in (out)	<u>1,614,444</u>	<u>(376,293)</u>
Excess of revenues and other sources over (under) expenditures and other uses	1,304,560	(1,078,530)
Fund balance, beginning of year	<u>8,297,981</u>	<u>9,376,511</u>
Fund balance, end of year	<u>\$ 9,602,541</u>	<u>\$ 8,297,981</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2005

Net change in fund balances - total governmental funds	\$ 1,304,560
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Add: capital outlay	20,000
Deduct: depreciation expense	(226,396)
An internal service fund is used by management to cover the risk of overspending the Managed Care Specialty Services Program contract. The net revenue (expense) of the fund attributable to those funds is reported with government activities.	(1,557,010)
Sale of capital assets proceeds are recognized as revenues in the governmental funds, but only the gain or loss is recognized in the statement of activities.	-
Some expenses reported in the Statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Deduct: increase in accrual for compensated absences	<u>(46,151)</u>
Change in net assets of governmental activities	<u>\$ (504,997)</u>

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Proprietary Funds
Statement of Net Assets
September 30, 2005 and 2004

	Governmental Activities Internal Service Funds 2005 *	2004 **
Assets		
Cash and cash equivalents	\$ 1,863,677	\$ 2,136,337
Accrued interest	-	14,544
Due from other funds	<u>-</u>	<u>241,614</u>
 Total assets	 <u>\$ 1,863,677</u>	 <u>\$ 2,392,495</u>
Liabilities		
Due to other funds	\$ 1,028,192	\$ -
Net Assets		
Reserved	<u>835,485</u>	<u>2,392,495</u>
 Total liabilities and net assets	 <u>\$ 1,863,677</u>	 <u>\$ 2,392,495</u>

* Risk Management Fund

** Risk Management Fund and Retiree Medical Insurance Funds

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
Years Ended September 30, 2005 and 2004

	Governmental Activities Internal Service Funds 2005 *	2004 **
Operating expenses		
Post employment benefits	\$ -	\$ (97,473)
Nonoperating revenues		
Interest income	<u>57,434</u>	<u>51,325</u>
Income (loss) before transfers	<u>57,434</u>	<u>(46,148)</u>
Transfers		
Operating transfers in (out) - other funds	(1,614,444)	376,293
Operating transfers (out) - other entities	<u>-</u>	<u>(2,052,940)</u>
Total transfers	<u>(1,614,444)</u>	<u>(1,676,647)</u>
Change in net assets	(1,557,010)	(1,722,795)
Net assets, beginning of year	<u>2,392,495</u>	<u>4,115,290</u>
Net assets, end of year	<u>\$ 835,485</u>	<u>\$ 2,392,495</u>

* Risk Management Fund

** Risk Management Fund and Retiree Medical Insurance Funds

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan
Proprietary Funds
Statement of Cash Flows
Years Ended September 30, 2005 and 2004

	Governmental Activities Internal Service Funds 2005 *	2004 **
Cash flows from operating activities		
Cash payments of post employment benefits	\$ -	\$ (97,473)
Cash flows from noncapital financing activities		
Operating transfers in	(344,638)	134,680
Operating transfers out	<u>-</u>	<u>(2,052,940)</u>
Net cash used for noncapital financing activities	<u>(344,638)</u>	<u>(1,918,260)</u>
Cash flows from investing activities		
Proceeds from interest earnings	<u>71,978</u>	<u>36,780</u>
Net decrease in cash	(272,660)	(1,978,953)
Cash and cash equivalents, beginning of year	<u>2,136,337</u>	<u>4,115,290</u>
Cash and cash equivalents, end of year	<u>\$1,863,677</u>	<u>\$2,136,337</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating loss	\$ -	\$ (97,473)
Net cash used by operating activities	<u>\$ -</u>	<u>\$ (97,473)</u>

* Risk Management Fund

** Risk Management Fund and Retiree Medical Insurance Funds

The Notes to the Financial Statements are an integral part of this statement

Community Mental Health for Central Michigan

Notes to Financial Statements

September 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Community Mental Health for Central Michigan (the Authority) conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the Authority.

Reporting Entity

The Authority operates as a Community Mental Health Authority under the provisions of Act 258 – Public Acts of 1974, as amended. The Authority provides funding for services in the areas of mental illness, developmental disabilities, and other related mental health needs for residents of Isabella, Mecosta, Osceola, Clare, Midland and Gladwin Counties.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Authority's reporting entity, and which organizations are legally separate, component units of the Authority. Based on the application of the criteria, the Authority does not contain any component units.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-

type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to consumers who purchase, use or directly benefit from services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statements Presentation

Government-Wide Financial Statements – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Community Mental Health for Central Michigan

Notes to Financial Statements

September 30, 2005

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Modifications to the accrual basis of accounting include:

- Employees' vested annual leave is recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at September 30, has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

Proprietary Fund Financial Statements – The financial statements of the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the internal service fund are charges to other funds for insurance services. Operating expenses for internal service funds include the cost of claims, administration and reinsurance. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The financial statements of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The Authority reports the following major governmental and proprietary funds:

Governmental Funds

General Fund – This fund is the Authority's primary operating fund. It accounts for all financial resources of the Authority, except those required to be accounted for in other funds.

Proprietary Funds

Internal Service Fund – These funds represent amounts set aside to fund the net uninsured exposure of potential shortfalls of contract revenues.

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

Comparative Data

Comparative total data for the prior year has been presented in order to provide an understanding of the changes in financial position and operations. Also, certain amounts presented in the prior year may have been reclassified in order to be consistent with the current year's presentation.

Budgetary Data

Budgets are adopted by the Authority for all governmental funds. The budget is adopted and prepared on the modified accrual basis of accounting. The budget is also adopted at the functional level. The budgeted revenues and expenditures for governmental fund types, as presented in this report, include any authorized amendments to the original budget as adopted.

Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, money market funds, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

A specific amount of cash has been restricted for the risk management reserve.

Receivables and Payables between Funds

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances".

Receivables

Accounts receivable in all funds report amounts that have arisen in the ordinary course of business and are stated net of allowances for uncollectible amounts.

Interest receivable represents amounts due the Authority for certificates of deposit that have not yet matured.

Due from other governmental entities consist primarily of amounts due from the Michigan Department of Community Health and the State of Michigan.

Inventories

The Authority does not recognize as an asset inventories of supplies. The cost of these supplies is considered immaterial to the financial statements and the quantities are not prone to wide fluctuation from year to year. The costs of such supplies are expensed when purchased.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the government as individual assets with an initial cost equal to or more than \$ 5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

The Authority does not have infrastructure type assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction of capital assets is not capitalized. No interest expense was incurred during the current year.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements.

Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Equipment and furnishings	3 – 7
Computers	2 – 5
Automobiles	5
Buildings and improvements	7 – 30
Land	Not applicable – not depreciated

Deferred Revenue

Deferred revenues arise when resources are received by the Authority before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the fund financial statements and government-wide financial statements, and revenue is recognized.

Compensated Absences

The Authority allows employees to carryover into the following year, any unused, paid time off, up to a maximum of 280 hours. All regular full time employees accrue annual leave on a per-pay basis. Amounts accrued vary depending on the employee's length of service with the Authority. Upon termination of employment, annual leave balances are paid at the current rate of pay. The governmental fund financial statements record expenditures when employees are paid for leave. The government-wide financial statements present the cost of accumulated vacation leave as a liability. There is no liability for unpaid sick leave since the Authority does not have a policy to pay this amount upon termination of employment.

Restricted Assets

Cash has been restricted for future payment of the compensated absences liability and risk management. These restricted assets are held in separate cash accounts with local financial institutions.

Governmental Fund – Fund Balance Reserves and Designations

The governmental fund financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related assets such as prepaid items are examples of the former. Reserves for Medicaid Savings, compensated absences and post employment benefits are examples of the latter.

Inpatient/Residential Cost Liability

The amount recorded for inpatient/residential liability is based on management's estimate. This estimate is based on (1) the number of clients at each facility, (2) the number of days each client is at each facility, and (3) the daily rate charged for each facility.

The Authority does not receive actual billings for these services until several months after the service date. Therefore, the liability is not liquidated within the normal 60 day period after year end. Also, the

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

actual cost may vary from the estimated amount due to reimbursements from third party payors that are applied to the total cost before the billings are sent to the Authority.

Note 2 - Stewardship, Compliance and Accountability

Excess of Expenditures over Appropriations

During the year ended September 30, 2005, the Authority did not incur expenditures in excess of the amounts appropriated in the General Fund, except for capital outlay which exceeded the budget by \$16,842.

Note 3 - Deposits and Investments

Interest rate risk – The Authority manages its exposure to declines in fair value by keeping investments sufficiently liquid to meet all operating requirements that may be reasonably anticipated.

Credit risk – State statutes and the Authority's investment policy authorize the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligations repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority's deposits are in accordance with statutory authority.

Concentration of credit risk – The Authority's investment policy requires diversification by security type and institutions in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial credit risk – deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Authority evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated risk level are used as depositories. At year end, \$ 10,320,297 of the Authority's bank balance of \$ 11,469,731 was exposed to credit risk, because it was uninsured and uncollateralized.

Interfund Receivables and Payables

The amount of interfund receivables and payables at September 30, 2005 are as follow:

	Due from Other Funds	Due to Other Funds
General Fund	\$ 1,028,192	\$ -
Internal Service Fund	<u>-</u>	<u>1,028,192</u>
Totals	<u>\$ 1,028,192</u>	<u>\$ 1,028,192</u>

The outstanding balances between funds result mainly from the time lag between transactions are recorded in the accounting system and payments between funds are made.

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

Interfund Transfers

The Risk Management Fund transferred \$1,614,444 to the General Fund as allowed by the Department of Community Health contract during the fiscal year ended September 30, 2005.

	Transfer from Other Funds	Transfer to Other Funds
General Fund	\$ 1,614,444	\$ -
Internal Service Fund	<u>-</u>	<u>1,614,444</u>
Totals	<u>\$ 1,614,444</u>	<u>\$ 1,614,444</u>

Note 4 - Due from Other Governmental Units

As of September 30, this receivable consisted of the following:

	2005	2004
Department of Community Health		
OBRA Grant	\$ 72,488	\$ 102,580
Juvenile Justice Grant	12,517	23,378
Midland County Educational Service		
Agency - Early On Grant	41,060	27,436
Other governmental units	<u>180,568</u>	<u>50,806</u>
	<u>\$ 306,633</u>	<u>\$ 204,200</u>

Note 5 - Changes in Fixed Assets

A summary of changes in capital assets is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 230,000	\$ -	\$ -	\$ 230,000
Capital assets being depreciated				
Buildings and improvements	753,403	-	-	753,403
Equipment and furnishings	960,880	-	-	960,880
Computers	622,057	20,000	-	642,057
Vehicles	<u>646,584</u>	<u>-</u>	<u>(20,700)</u>	<u>625,884</u>
Total capital assets being depreciated	<u>2,982,924</u>	<u>20,000</u>	<u>(20,700)</u>	<u>2,982,224</u>
Less accumulated depreciation for				
Buildings and improvements	157,710	32,065	-	189,775
Equipment and furnishings	725,264	79,740	-	805,004
Computers	508,945	66,478	-	575,423
Vehicles	<u>535,157</u>	<u>48,111</u>	<u>(20,700)</u>	<u>562,568</u>
Total accumulated depreciation	<u>1,927,076</u>	<u>226,394</u>	<u>(20,700)</u>	<u>2,132,770</u>
Net capital assets being depreciated	<u>1,055,848</u>	<u>(206,394)</u>	<u>-</u>	<u>849,454</u>
Capital assets, net	<u>\$ 1,285,848</u>	<u>\$ (206,394)</u>	<u>\$ -</u>	<u>\$ 1,079,454</u>

Depreciation expense was charged to the Health & Welfare – Mental Health Program.

Note 6 - Accrued Wages and Other Payroll Liabilities

This liability represents amounts paid to employees during October that was earned during September. Also included are employer payroll taxes.

Note 7 - Due to Other Governmental Units

As of September 30, this liability consists of the following:

	2005	2004
Michigan Department of Community Health - State Institutions	<u>\$ 709,144</u>	<u>\$ 212,866</u>

Community Mental Health for Central Michigan

Notes to Financial Statements

September 30, 2005

Note 8 - Long Term Liabilities

The changes in long term liabilities during the 2005 fiscal year are as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Decreases</u>	<u>Balance</u>
Governmental activities				
Compensated absences	\$ 861,779	\$ 46,151	\$ -	\$ 907,930

Leases

The Authority has entered into various operating leases for the use of real and personal property. Operating leases do not give rise to property rights or lease obligations, and therefore, the lease agreements are not reflected in the account groups.

At September 30, the Authority was committed, subject to cancellation provisions, for rental payments under operating leases as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2006	\$ 1,465,269
2007	1,158,645
2008	1,105,617
2009	1,042,927
2010	1,015,686
2011	103,417
	<u>\$ 5,891,561</u>

Note 9 - Other Information

Compliance Audits

All governmental grants are subject to a transactional and compliance audit by the grantors or their representatives. Therefore,

an indeterminable contingency exists for expenditures, which may be disallowed by the granting agencies.

Note 10 - Risk Management

Michigan Municipal Risk Management Authority

The Authority participated in the public entity risk pool – Michigan Municipal Risk Management Authority (MMRMA) for liability, vehicle physical damage, and property and crime.

MMRMA, a separate legal entity, is a self-insured association organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to various Michigan governmental entities.

As a member of this pool, the Authority is responsible for paying all losses, including damages, loss adjustment expenses and defense costs, for each occurrence that falls within the member's self-insured retention. If a covered loss exceeds MMRMA's limits, all further payments for such loss are the sole obligation of the Authority. If for any reason, the MMRMA's resources available to pay losses are depleted, the payment of all unpaid losses of the Authority is the sole obligation of the Authority.

The Authority's coverage limits are \$ 15,000,000 for liability and between \$ 10,000 and \$ 200,000,000 for property and crime.

Internal Service Funds

The Authority has established an Internal Service Funds to cover the risk of overspending the Managed Care Specialty Services Program contract. This contract provides for the use of Department of Community Health funding for the establishment of Internal Service Funds. Expenditures from the Internal Service Fund will occur when, in any one fiscal year, the Authority finds it necessary to expend more funds to carry out the contract requirements than revenue provided by the contract.

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

Employee Retirement and Benefit Systems

Plan Description – The Authority participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all of the Authority's regular full-time employees. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, Michigan 48076.

The most recent period for which actuarial data was available was for the year ended December 31, 2004. The Authority's payroll for the employees covered by the system for the year ended December 31, 2004 was \$ 12,278,154.

As of December 31, 2004, employee membership data related to the pension plan was as follows:

Retirees and beneficiaries currently receiving benefits	60
Active plan participants	312
Vested former members	<u>86</u>
Total	<u>458</u>

Funding Policy – If a member leaves the Authority or dies, without a retirement allowance or other benefit payable on his/her account, his/her accumulated contributions will be refunded to him/her, if living, or to his/her nominated beneficiary.

Benefit programs and provisions are established by the Retirement Board. All benefits vest after 10 years of service, except that benefits may vest after eight or six years of service if adopted by the

municipality's governing body. The standard retirement age is 60 years; however, members may retire with several combinations of age and years of service and receive reduced early retirement benefits. Municipalities may adopt various other benefit programs which allow retirement at an earlier age with unreduced benefits based upon combinations of age and years of service, or just years of service. MERS also provided non-duty disability and death benefits to members after vesting requirements are met.

Funding Status and Progress – The amount shown below as the "pension benefit obligation" is based on the standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and separate benefits, estimated to be payable in the future as a result of employee services to date. The measure is the actuarial present value of credited projected benefits and is intended to (1) help users assess the plan's funding status of the system on a going-concern basis; (2) assess progress made in accumulating sufficient assets to pay benefits when due; and (3) make comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2004. Significant actuarial assumptions used in determining the pension benefit obligation include (1) a rate of return on the investment of present and future assets of 8.0% and (2) projected salary increases of 4.5% per year plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases.

At December 31, 2004, the assets were less than the pension benefit obligation by \$ 2,995,699, determined as follows:

Community Mental Health for Central Michigan
Notes to Financial Statements
September 30, 2005

Actuarial Accrued Liability

Retirees and beneficiaries currently receiving benefits	\$ 8,996,942
Terminated employees not yet receiving benefits	2,776,771
Nonvested terminated employees	22,947
Current employees	
Accumulated employee contributions including	
allocated investment income	1,039,223
Employer financed	<u>18,536,814</u>
 Total actuarial accrued liability	 31,372,697
 Net assets available for benefits at actuarial value (market value = \$ 27,699,334)	 <u>28,376,998</u>
 Unfunded actuarial accrued liabilities	 <u>\$ 2,995,699</u>

Additional Information

Fiscal year beginning	October 1, 2006
Annual required contribution (ARC)	\$ 1,327,272
Amortization factor used - under-funded liabilities (30 years)	0.053632

A defined benefit Health Savings Program has been established with MERS for employees that retire on or before October 1, 2004. As of September 30, 2005, there were 185 retired individuals eligible to receive benefits under this program. The retirees are required to pay for a portion of their health care costs based on their age and years of service at retirement. The Authority also pays a portion of these costs, with a maximum per retiree benefit of \$ 400 per month.

A defined contribution Health Savings Program has also been established with MERS for certain employees who are not eligible to receive benefits under the above mentioned defined benefit Health Savings Program. Employees of the Authority become eligible for this benefit if they work two bi-weekly pay periods per month with at least 60 hours worked for each of these pay periods. The Authority will contribute a maximum of \$ 60 per month to MERS for each eligible employee who receives this fringe benefit.

Three year trend information follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Fund Ratio	UAAL as a Percentage of Covered Payroll
12/31/02	\$ 22,170,109	\$ 25,006,311	\$ (2,836,202)	89%	24%
12/31/03	26,001,783	29,470,598	(3,468,815)	88%	28%
12/31/04	28,376,998	31,372,697	(2,995,699)	90%	24%

Health Insurance Benefits

In addition to providing pension benefits through MERS, the Authority, in accordance with agreements with MERS, provides post employment health insurance benefits to certain employees.

Community Mental Health for Central Michigan
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State grants				
Department of Community Health contract	\$ 9,263,409	\$ 9,408,874	\$ 9,272,676	\$ (136,198)
Substance abuse	908,000	725,100	667,329	(57,771)
Title XX	19,342	19,342	19,342	-
Other state revenues	42,000	42,000	39,332	(2,668)
Total state grants	<u>10,232,751</u>	<u>10,195,316</u>	<u>9,998,679</u>	<u>(196,637)</u>
Federal grants	<u>919,544</u>	<u>952,877</u>	<u>842,589</u>	<u>(110,288)</u>
Contributions - local units				
County appropriations	<u>1,125,401</u>	<u>1,125,401</u>	<u>1,125,401</u>	<u>-</u>
Charges for services				
Medicaid - DCH contract	47,683,195	47,923,195	47,437,094	(486,101)
Medicaid - other	708,177	708,177	260,265	(447,912)
Northern Espresso program	83,000	83,000	83,735	735
Client and third party pay	765,000	1,005,000	1,060,490	55,490
Inter-county services	400,000	304,685	559,233	254,548
Other earned contract revenue	902,395	888,493	775,244	(113,249)
Total charges for services	<u>50,541,767</u>	<u>50,912,550</u>	<u>50,176,061</u>	<u>(736,489)</u>
Interest and rents				
Interest	<u>200,000</u>	<u>205,902</u>	<u>306,008</u>	<u>100,106</u>
Other revenue	<u>1,369,930</u>	<u>762,730</u>	<u>142,809</u>	<u>(619,921)</u>
Total revenues	<u>64,389,393</u>	<u>64,154,776</u>	<u>62,591,547</u>	<u>(1,563,229)</u>

Community Mental Health for Central Michigan
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget and Actual
General Fund
Year Ended September 30, 2005

	<u>Budgeted Amounts</u>			Variance Between Actual and Final Budget
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Expenditures				
Health & Welfare - Mental Health				
Current				
Personnel costs	\$ 20,108,898	\$ 19,828,463	\$ 19,338,926	\$ (489,537)
Operating expenditures	46,327,354	46,641,858	43,408,003	(3,233,855)
Capital outlay	<u>138,756</u>	<u>138,020</u>	<u>154,502</u>	<u>16,482</u>
Total expenditures	<u>66,575,008</u>	<u>66,608,341</u>	<u>62,901,431</u>	<u>(3,706,910)</u>
Revenues over (under) expenditures	(2,185,615)	(2,453,565)	(309,884)	2,143,681
Other financing sources (uses)				
Operating transfer in (out)	<u>-</u>	<u>2,453,565</u>	<u>1,614,444</u>	<u>(839,121)</u>
Excess of revenues and other sources over (under) expenditures and other uses	(2,185,615)	-	1,304,560	1,304,560
Fund balance, beginning of year	<u>8,297,981</u>	<u>8,297,981</u>	<u>8,297,981</u>	<u>-</u>
Fund balance, end of year	<u>\$ 6,112,366</u>	<u>\$ 8,297,981</u>	<u>\$ 9,602,541</u>	<u>\$ 1,304,560</u>



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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Community Mental Health for Central Michigan
Mt. Pleasant, Michigan

We have audited the financial statements of Community Mental Health for Central Michigan as of and for the year ended September 30, 2005, and have issued our report thereon dated January 11, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Community Mental Health for Central Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Community Mental Health for Central Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
January 11, 2006

**Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Directors
Community Mental Health for Central Michigan
Mt. Pleasant, Michigan

Compliance

We have audited the compliance of Community Mental Health for Central Michigan with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Community Mental Health for Central Michigan's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Community Mental Health for Central Michigan's management. Our responsibility is to express an opinion on Community Mental Health for Central Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Community Mental Health for Central Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Community Mental Health for Central Michigan's compliance with those requirements.

In our opinion, Community Mental Health for Central Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control over Compliance

The management of Community Mental Health for Central Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Community Mental Health for Central Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

Saginaw, Michigan
January 11, 2006

Community Mental Health for Central Michigan
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Approved Grant Award Amount	Current Year Expenditures
Department of Health and Human Services			
Passed through the State of Michigan Family Independence Agency			
Temporary Assistance WRAP	93.558	\$ 40,000	\$ 38,163
Temporary Assistance CAN		173,073	<u>173,073</u>
			<u>211,236</u>
Passed through the Michigan Department of Community Health			
Developmental Disabilities Basic Support and Advocacy Grant 2004024 (75% of total grant)	93.630	33,333	<u>22,520</u>
Passed through the Michigan Department of Community Health			
Medical Assistance Program 20031634	93.778	504,400	<u>431,547</u>
Passed through the Michigan Department of Community Health			
Block Grant 20051057	93.958		
Peer Run Community Support Program (2004)		10,060	774
Co-occurring Disorders Proposal 20470		75,000	69,879
ACT Peer Support Advocate 20468		9,405	9,405
Juvenile Justice Diversion 27755 (2004)		50,000	(11,956)
Juvenile Justice Diversion 27755 (80% of grant)		50,000	48,697
Respite Services 27505		25,487	25,487
Wraparound Services 27805		35,000	<u>35,000</u>
			<u>177,286</u>
Total federal financial awards			<u>\$ 842,589</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards

Community Mental Health for Central Michigan
Notes to the Schedule of Expenditures of Federal Awards
September 30, 2005

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal financial assistance programs of Community Mental Health for Central Michigan. All federal financial awards passed through other government agencies are included on the schedule.

Note 2 - Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

Note 3 - Relationship to Basic Financial Statements

Federal financial assistance revenue is included in the basic financial statements as federal and state grants.

Community Mental Health for Central Michigan
Schedule of Findings and Questioned Costs
September 30, 2005
(Continued)

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X none reported
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X none reported

Type of auditors' report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.778	Medical Assistance Program

Dollar threshold used to distinguish between type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

 X yes _____ no

Community Mental Health for Central Michigan
Schedule of Findings and Questioned Costs
September 30, 2005
(Continued)

Section II – Government Auditing Standards Findings

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards for the year ended September 30, 2005.

Section III – Federal Award Findings

There were no findings or questioned costs for Federal Awards for the year ended September 30, 2005.

Community Mental Health for Central Michigan
Summary Schedule of Prior Audit Findings
September 30, 2005

There were no audit findings for the year ended September 30, 2004.



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January 11, 2006

To the Board of Directors
Community Mental Health for Central Michigan
Mt. Pleasant, Michigan

In planning and performing our audit of the basic financial statements of Community Mental Health for Central Michigan for the year ended September 30, 2005, we considered the internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our engagement, we became aware of the following item that offers an opportunity to strengthen internal controls and operating efficiency. We would like to share this matter with you and offer our recommendations.

The Authority has a code of conduct for ethical behavior. We recommend that the Authority review and upgrade the code. Recent business scandals has focused attention on the importance of a well developed and communicated code of conduct promoting honesty and ethical behavior and deterring unethical business activity. As a result, we recommend that the current code of conduct for ethical behavior be expanded to include accounting and financial behavior. The following are a few of the items that may be considered:

- The use of authority assets for any unlawful or improper purpose is strictly prohibited.
- No undisclosed or unrecorded asset is to be established for any purpose.
- No false entries are to be made in the books for any reason, and no employee shall engage in any arrangement that results in such prohibited act.
- No payments are to be approved or made with the intention that any part is to be used for any purpose other than that described in the supporting documents.
- Any employee who knows of any unrecorded assets or any prohibited act must promptly report it to specified supervisory or management personnel.
- Each manager is responsible for enforcing the policy.

This report is intended solely for the use of management and should not be used for any other purpose.

We appreciate the opportunity to serve the Community Mental Health for Central Michigan. Should you have any questions, please feel free to contact our office.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in cursive script, appearing to read 'Mari McKenzie'.

Mari McKenzie